
Senate Proposed 1997-99 Operating Budget

Senate Ways and Means Committee
March 24, 1997

*The Senate budget is also available on the Internet at:
<http://www.leg.wa.gov/swm/>*

Budget Highlights

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SUMMARY OF BUDGET PRINCIPLES

I. CREATE A BUDGET THAT IS SUSTAINABLE WITHIN THE STATE'S SPENDING LIMIT

Initiative 601 demands adherence to sound budgeting principles. A sustainable budget must avoid bow-waving enhancements, the use of temporary savings to fund ongoing programs and fund switches and other temporary strategies that could create problems in future biennia.

The Senate budget minimizes bow-waves, uses ongoing savings to fund ongoing costs, funds pay increases for the entire two-year fiscal period, and balances the Health Services Account without jeopardizing future spending.

II. PROVIDE LONG TERM TAX RELIEF TO OUR CITIZENS

The homeowners and business of this state have long awaited serious long-term property tax relief and the final elimination of the tax increases passed in 1993.

The Senate Budget reduces state property taxes by \$250 million dollars through the 1997-99 biennium and significantly limits future growth in state and local property taxes. In addition, the Senate Budget removes the last major piece of the 1993 tax increase by rolling back the Business and Occupation tax on service businesses to the original rate.

III. INVEST IN EDUCATION

Our state's continued prosperity depends on a skilled workforce that can respond to the demands of a high tech global economy.

The Senate K-12 budget provides a total of \$408 million in enhancements to reduce class size (the first reduction in class size since 1991), continue education reform, fund common school construction, provide a 3% cost of living adjustment and health benefits funding, new funding for technology, instructional materials, charter schools and an innovative reading program in our public schools.

The higher education budget provides a total of \$242 million in new funding for 6,451 new enrollments in state institutions, student aid for those new students, additional funds to complete the distance education network, provide a 3% cost of living increase and other adjustments to address faculty and staff compensation.

IV. RETHINK STATE PROGRAMS

The state's general fund spending limit forces public lawmakers to rethink state programs. New programs can only be created if some existing programs are reduced or eliminated.

The Senate has enacted a ground-breaking reform of the welfare system that puts work first. The proposal provides clear outcomes for the reform but allows the implementers who are closer to the problems the flexibility to determine how best to achieve the desired results. The Senate budget also endorses the Governor's new savings incentive program to break the age-old problem of government budgets that "spend it or lose it," and a new Caseload Forecasting Council to assure the accuracy of our underlying budget assumptions.

1997-99 GF-S BALANCE SHEET

1997-99 BALANCE SHEET Estimated Revenues and Expenditures General Fund-State (Dollars in Millions)

	<u>1997-99</u>
RESOURCES	
Beginning Balance	\$462.6
March Revenue Forecast	\$19,446.0
SB 5835 - Property Tax Reduction (Referendum)	(\$194.6)
Business & Occupation Tax Rollback	(193.4)
HB 1417 - 4.7% Property Tax Reduction	(26.4)
Other Tax Reduction Legislation	(51.5)
Budget Driven Revenue / Revenue Legislation	\$19.6
Total Resources	\$19,462.3
EXPENDITURES	
1997-99 Appropriations Act	\$19,090.9
Other Appropriations	0.0
Total Expenditures	\$19,090.9
RESERVES	
Ending Balance	\$371.4
Emergency Reserve Account	-
Total Reserves	\$371.4
Spending Limit	\$19,193.2
Amount below spending limit	102.3

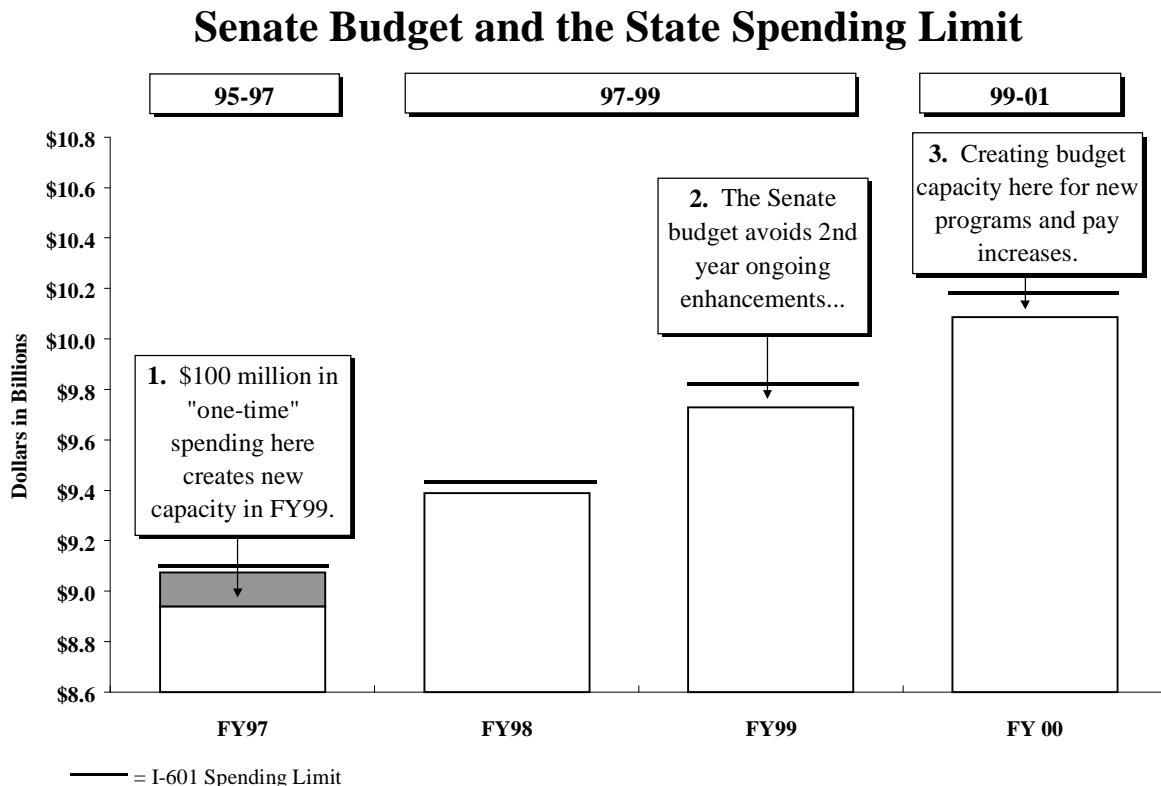
DISCUSSION OF BUDGET PRINCIPLES

I. CREATE A BUDGET THAT IS SUSTAINABLE WITHIN THE STATE'S SPENDING LIMIT

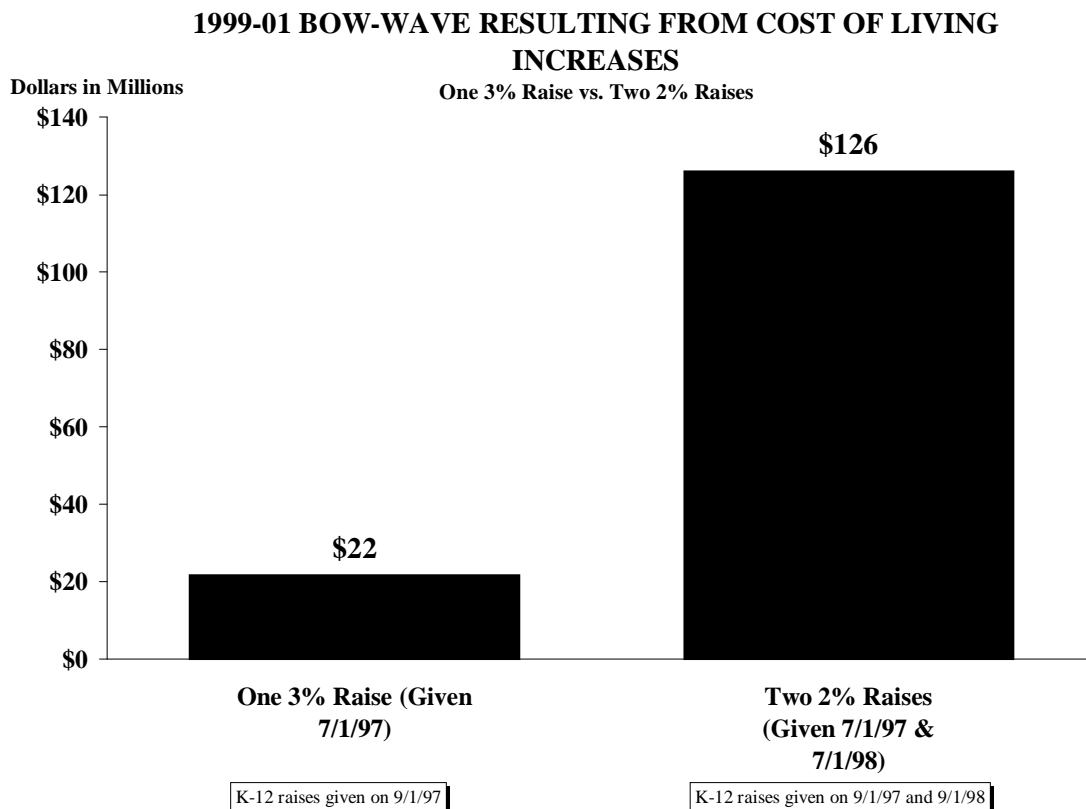
The 1997-99 Senate budget was crafted using the following budget principles:

- ❖ Avoid bow-waving the cost of enhancements.
- ❖ Ongoing costs are not funded with one-time savings.
- ❖ Minimize temporary fund shifts.
- ❖ Maintain a prudent reserve.

The Senate budget, as shown below, is carefully crafted to grow each year within the spending limit growth factor. The Senate budget leaves over \$102 million of spending capacity in the second year of the biennium for emergencies, additional common school construction funding or other emergent needs. The Senate budget also funds \$924 million of new spending by utilizing \$609 million of the capacity under the spending limit and making an additional \$315 million of sustainable program reductions. The 1999-01 budget can be crafted without having to make cuts in current programs to support new enhancements or cost of living increases.



For example, a key decision was to fully fund cost of living increases for the entire 24 months of the biennium. Had the budget provided two annual increases instead, an additional \$104 million would have to be added in the 1999-01 budget just to pay for the 1997-99 cost of living increase as shown in the chart below.

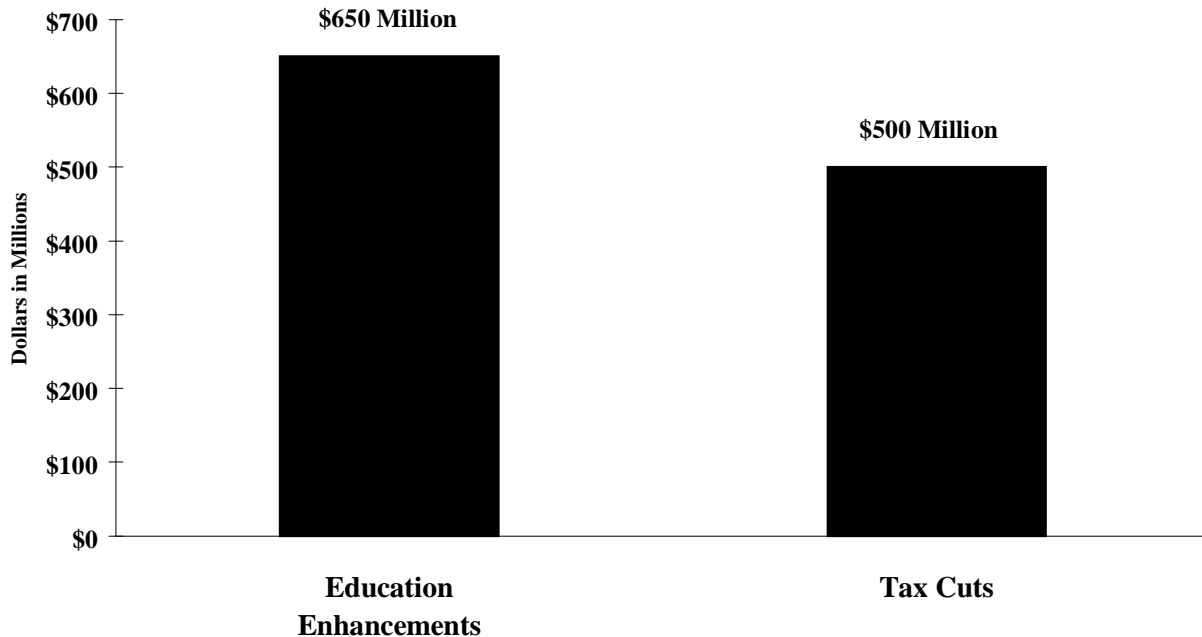


Without any action, the Health Services Account was forecasted to be \$165 million overspent in the 1997-99 biennium. The Senate budget *permanently* manages that entire shortfall through \$23 of program reductions, \$66 million of changes in the Basic Health Plan, and by shifting \$83 million of programs to the general fund.

II. PROVIDE LONG TERM TAX RELIEF TO OUR CITIZENS

The Senate budget is mindful of the need to balance tax relief with investments in education. The budget, therefore, proposes \$500 million of tax cuts and \$650 million of new spending for K-12 and Higher Education in both the 1997-99 biennial and 1997 supplemental budgets.

The Senate Budget Balances Education Enhancements and Tax Reductions*



* Includes the 1997 Supplemental budget

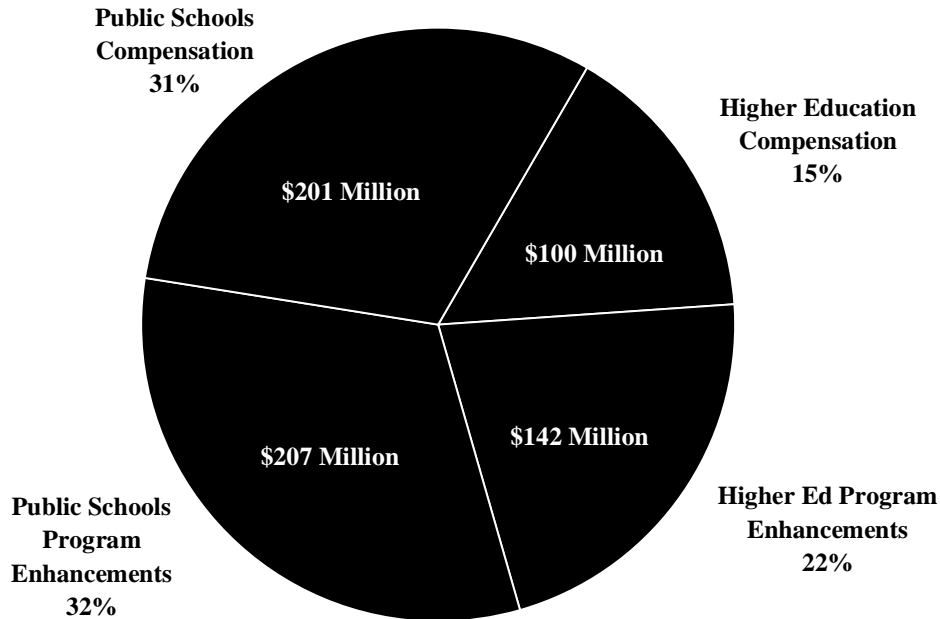
The Senate tax package is comprised of two major pieces: property tax relief for every property owner in the state and the elimination of the 1993 Business & Occupation Tax increase on service businesses.

The Senate property tax proposal (which has been referred to the voters) is a combination of short term relief and long term reform to address both the current level and the continuing growth of property taxes. First, state property taxes are permanently reduced by 4.7% beginning in 1997. Second, the 106% limit on state and local growth is reduced to a limit based on inflation. This will force state and most local governments to set their budgets within inflation. Local governments are allowed to increase taxes up to the 106% limit by taking a majority plus one vote. Finally, to address the problem of sharp increases in property taxes when property values suddenly grow, a new limit is placed on property value growth. For example, if the property value would have increased by 50% in one year, this proposal spreads that growth out over 4 years lessening the impact of the increase. The Senate property tax package saves taxpayers over \$250 million through the end of the 1997-99 biennium.

The second major piece of tax reduction legislation is the rollback of the 1993 B&O tax increase. The B&O tax on service business was increased in 1993 from 1.5% up to 2.5% in some cases. In the 1996 session, the rates were partially reduced and now the reduction is complete. In the next biennium, the B&O tax for all service businesses will be 1.5%, reducing the taxes for almost 70,000 businesses saving these taxpayers almost \$195 million for the biennium.

III. INVEST IN EDUCATION

The Senate Funds \$650 Million in Education Enhancements



* Includes 1997 supplemental budget

In the Senate budget, new K-12 funds are invested in preparing our young people to successfully move into either higher education or the work force. The Senate provides funds to reduce 4th grade class sizes -- the first such reduction since 1991 -- and carefully focuses learning improvement grants on fundamentals like reading writing, and math, and adds additional funds for instructional improvement. In addition, the 1997 supplemental budget appropriates \$75 million to the Common School Construction Account to maintain and expand our public schools.

The Senate higher education budget provides \$49 million for new enrollments and \$30 million for financial aid to increase access to our colleges and universities. Additional funds are provided for pay increases beyond cost of living allowances to reward and retain extraordinary faculty. The Colleges and Universities are held accountable to improve performance and productivity by withholding a total of \$21.5 million of their 1997-99 budgets, conditioned upon each school meeting state goals for student progress, retention and administrative efficiency.

In both the Senate K-12 and higher education budgets, additional investments are made in the statewide educational network. In higher education, almost \$13 million is provided in the 1997 supplemental budget to complete the network "backbone" that supports connection of our state universities and school districts. In addition, \$29 million is appropriated from the new Education Savings Account to public schools for the purchase of computers and other needed technology that allows connecting classrooms to the Internet.

IV. RETHINK STATE PROGRAMS

Under Initiative 601, we can't continue to do business as we have in the past. New programs can only be initiated if we rethink old programs and discard or change those that are not working.

WELFARE REFORM

Since the mid-thirties, Aid to Families with Dependent Children (AFDC) was the joint federal/state program that provided financial assistance to low income families with children. On August 22, 1996 Congress ended the open-ended AFDC entitlement and replaced it with a block grant. Each state is challenged to innovate a new program that moves recipients from welfare to work.

The Senate proposal represents a complete rethinking of how welfare should be used. It ends the welfare entitlement, lays out the outcomes that are desired, and honors the expertise of the executive branch in the achievement of outcomes. The new WORKFIRST program will add predictability to over \$650 million of existing state general fund expenditures that previously was lacking.

THE CASELOAD FORECAST COUNCIL

Good information is essential for the formulation of good policy. The Economic Revenue Forecast Council has been heralded by both parties and across both the executive and legislative branches of government for its accurate forecasts and open process. The Senate extends that model to caseload forecasting by creating the new Caseload Forecast Council.

The council will forecast state entitlement programs, correctional institutions, institutions for juvenile offenders, K-12, long-term care, medical assistance, foster care and adoption support. These forecasts will coincide with the development of the Governor's budget proposal and the legislative budget. A workgroup consisting of staff from OFM, the legislative fiscal committees and state agencies is formed to facilitate a free flow of information concerning each forecast.

THE SAVINGS INCENTIVE PLAN

Unlike the private sector, a government enterprise that saves money can't retain their savings to make prudent investments. In government budgets they simply lose the use of those savings in the future. The Senate, in partnership with the House and the Governor, has proposed the Savings Incentive Plan which will allow agencies to share in their efficiencies and invest for their future productivity. Fifty percent of the savings, along with 100% of any other savings in K-12 Education, Higher Education and entitlement programs are deposited in the Education Savings Account. This account is expected to generate over \$80 million next biennium. The Senate appropriates \$29.3 million of this amount for matching grants for K-12 technology and leaves the balance in reserve for future educational needs.

DETAILED BALANCE SHEET

1997-99 Detailed Balance Sheet

General Fund-State, Dollars in Millions

REVENUES

March Revenue Forecast \$19,446

Revenue Adjustments

Tax Reduction Legislation (\$414)

Other Revenue Legislation (52)

Budget Driven Revenue 20

Subtotal (\$446)

Total Revised Revenues \$19,000

INITIATIVE 601 SPENDING LIMIT \$19,193

EXPENDITURES

1995-97 Estimated Expenditures \$17,582

Maintenance Level Adjustments \$900

Human Services Mandatory Caseload/Cost Increases \$442

K-12 Education Mandatory Caseload/Cost Increases 303

Higher Education Enrollment Increases 64

Debt Service 99

Other Maintenance Adjustments (9)

Estimated Carryforward Budget \$18,482

Net Policy Adjustments \$609

Cost of Living Increases \$348

Public Schools 177

State Employees 62

Higher Education 58

Vendor Rates 50

Other Major Policy Adjustments \$262

K-12 Education 81

Higher Education 102

Human Services 43

All Other 36

TOTAL 1997-99 OPERATING BUDGET EXPENDITURES \$19,091

Other Appropriations Legislation \$0

Expenditures Under the State Spending Limit \$102

BALANCES

Prior Year Ending Balance \$463

Revenues Below Expenditures (91)

ENDING BALANCE \$371

FUNCTIONAL AREA HIGHLIGHTS

K-12 EDUCATION

SALARY AND HEALTH BENEFIT INCREASES -- \$201.7 MILLION GF-S

A three percent cost-of-living salary increase is provided for all state formula funded school district staff effective September 1, 1997. In addition, the monthly health benefit rate per employee is increased from the current \$314.51 per month to \$321.83, effective September 1, 1997. Effective September 1, 1998, the rate is increased to \$336.05 per month.

COMMON SCHOOL CONSTRUCTION -- \$75.0 MILLION GF-S

Funds are provided in the 1997 supplemental budget for building and renovating common schools. The moneys are appropriated to the Common School Construction fund to support the 1997-99 K-12 capital budget.

LEARNING IMPROVEMENT GRANTS -- \$40.8 MILLION GF-S

Grants are provided to school districts to improve learning in reading, writing, math and communications. The Commission on Student Learning has prepared essential learning requirements and assessments for these basic subjects for use by school districts. Funding to improve learning is focused on these subject matters and will ripple through the K-12 system starting in the elementary grades. The four subject matters constitute about 80 percent of the teaching effort in the elementary grades, 60 percent in middle schools and about 40 percent in the high schools. Accordingly, the Senate budget provides \$30 per elementary student, \$24 per middle school student, and \$18 per high school student. In subsequent biennia, as assessments progress from the basics to other subject matters and from the elementary grades to the higher grades, it is expected that more funds would be provided for middle schools and high schools.

FOURTH GRADE CLASS SIZE REDUCTION -- \$25.3 MILLION GF-S

In the 1996-97 school year, the state provides funds for one certificated instructional staff per 18.4 students in grades K-3 and one per 21.7 students in grades 4-12. This proposal lowers class size in the 4th grade by providing one certificated instructional staff per 20. This is expected to result in the hiring of an estimated 303 additional teachers in the 1997-99 biennium. This evens out the transition of a student from the 3rd grade with potential class sizes of 18.4 students, to 20 in the 4th grade and 21.7 in the 5th grade and up. The last time the legislature lowered class size was in 1991 for grades K-3.

TECHNOLOGY GRANTS -- \$29.3 MILLION EDUCATION SAVINGS ACCOUNT

Beginning in the 1997-98 school year, matching grants are provided to school districts for purchase of computers and other high technology classroom aids and for developing infrastructure such as connecting school buildings and classrooms to the internet. The matching funds are to be awarded through a competitive grant process to districts with applications that show the greatest potential educational benefit.

INSTRUCTIONAL MATERIALS -- \$20.0 MILLION GF-S

Funds are allocated for the 1998-99 school year, at a rate of \$20.82 per student, for purchase of instructional materials such as books, software and other technology related investments. The specific expenditure of the funds is to be determined at each school site and school districts are required to allocate all the funds to school buildings. This is expected to provide \$458 per average size classroom.

CHARTER SCHOOLS -- \$5.2 MILLION GF-S

Funds are provided to implement charter schools. State funding in the public school system will average \$4,461 per student, including the basic education programs. State funding for charter school students will be the same as that of the public school district in which the charter school is located. Three schools are expected to receive charters in the 1997-98 school year with a total enrollment of 558, and fifteen in the 1998-99 school year with a total enrollment of 3,487.

THE THIRD GRADE READING ACCOUNTABILITY ACT -- \$617,000 GF-S

Funds are provided to implement Substitute Senate Bill 5508 which sets a goal that 90 percent of 3rd graders will be reading at or above grade level by the year 2002. Beginning in the spring of 1998, the Superintendent of Public Instruction will administer a 3rd grade reading test to establish a baseline for each elementary school in the state. Schools are expected to make four annual incremental improvements to reach the 90 percent reading goal. Beginning in the 1999-2000 school year districts will receive a \$4,000 reward for each school achieving the annual incremental improvement. The \$617,000 pays for the 3rd grade reading test and administrative costs. This program and the rewards are expected to cost \$2.0 million per year in the 1999-01 biennium.

BLOCK GRANT -- \$6.1 MILLION GF-S

The block grant program serves to provide discretionary funds to school districts for educational purposes. The current rate of \$26.30 per student is increased to \$31.23 per student for the 1997-98 and 1998-99 school years. Part of the \$6.1 million increase stems from two discontinued programs, School-to-Work and Superintendent/ Principal Internships, for a total of \$3.6 million. Allocating funds through the block grant gives school districts local control in deciding how funds should be expended.

ELIMINATION OF DISTRICT SPECIFIC PROGRAMS -- \$7.5 MILLION GF-S SAVINGS

The magnet school program and the complex needs programs are eliminated. The magnet school program provided grants to five school districts for programs to encourage racial integration of schools through voluntary transfers. The complex needs program provides grants to 17 school districts based on 1991-93 data showing high incidences of: poor students; students with disabilities; and non-English speaking students.

BILINGUAL PROGRAM FORMULA CHANGE -- \$71,000 GF-S

The current bilingual formula allocates funds based on \$646 per bilingual student. The Senate budget contains a new weighted-student funding formula. This formula is based on the grade level of the student and the amount of time the student has been in the bilingual program. The formula allocates more funds for high school students, less for middle school students and least for elementary students because it is easier to teach English to younger students than older students. Also, the longer the student is in the program, the lower the state funding. This is based on testimony received by the Ways and Means Committee that the greatest amount of resources is necessary in the first year of a non-English speaking student's arrival and less as the student is assimilated into the regular education program.

SENATE K-12 BUDGET POLICY ITEMS
(GF-State and Education Savings Account, Dollars in Millions)

ENHANCEMENTS	Senate
Salary & Health Benefit Increases	\$201.7
School Construction *	75.0
Learning Improvement Grants	40.8
Technology Grants	29.3
4th Grade Class Size Reduction	25.3
Instructional Materials	20.0
Charters Schools	5.2
Reading Program	0.6
Block Grant	6.1
Additional Levy Equalization Funding	--
Miscellaneous	3.9
Subtotal Enhancements	\$407.9
REDUCTIONS/ADJUSTMENTS	Senate
K-12 Audits (SB 5394)	(\$4.9)
Average Salary Calculation (SB 5395)	(12.6)
Truancy Board Grants	(2.0)
Delay Assessments	(11.0)
Complex Needs	(4.4)
Magnet Schools	(3.1)
Superintendent/Principal Internships	(1.6)
School-to-Work	(3.0)
Miscellaneous	(3.2)
Subtotal Reductions/Adjustments	(\$45.8)
NET CHANGE	\$362.1

* Senate \$75.0 million GF-S school construction funding is included in the 1997 supplemental budget.

HIGHER EDUCATION

ACCESS

NEW ENROLLMENTS -- \$41.5 MILLION GF-S, \$16.5 MILLION TUITION

The Senate budget provides full funding for 6,451 new enrollments at the state's colleges and universities. This new capacity will be supported at the cost of instruction as determined by the Higher Education Coordinating Board. For new slots at the branch campuses funding will be provided at the upper division rates for undergraduates.

EXPANSION OF DISTANCE EDUCATION NETWORK -- \$12.6 MILLION GF-S

In the 1995-97 biennium the Legislature made the initial investment on the creation of a statewide education network. Additional funding in the 1997 supplemental budget will complete the network backbone to colleges and universities as well as to each local K-12 school district.

FINANCIAL AID

STATE NEED GRANT -- \$18.6 MILLION GF-S, WORK STUDY -- \$5.8 MILLION GENERAL FUND - FEDERAL

The state has a long-standing policy of providing additional money from the general fund for need based financial aid in an amount equivalent to 24% of new tuition revenue. Under SB 6076, the amount is increased to 30% of new tuition revenue in order to keep up with changing demographics and the cost of instruction. Additionally, the Senate budget recognizes the increased federal funds provided to Washington students by the 1996 federal budget for the work study program.

OTHER FINANCIAL AID -- \$5 MILLION GF-S

Increases include the Educational Opportunity Grant (\$500,000) The Washington Scholars Program (\$967,000) Award for Vocational Excellence (\$232,000) and the startup costs for the Pre-paid Tuition Program, SB 5106 (\$350,000). Health Services Scholarships are retained by transferring funding from the Health Services Account to the state general fund (\$2.2 million).

ACCOUNTABILITY

The commitment of scarce resources must be accompanied by assurances that performance and productivity are improved. Consequently, 10% of new enrollment funding (\$4.0 million) and 2% of the schools non-instructional base (\$17.5 million) will be held in reserve until the Higher Education Coordinating Board certifies that colleges and universities are meeting state goals for student progression, retention, administrative efficiency and other measures established by the board.

COMPENSATION

COST OF LIVING INCREASE -- \$57.8 MILLION GF-S

All higher education employees will receive a 3% cost of living increase effective July 1, 1997.

FACULTY AND PROFESSIONAL PAY INCREASE -- \$28.6 MILLION OTHER FUNDS

Colleges and Universities are given authority to provide an additional 1% pay increase in 1997 and an additional 2% pay increase in 1998. Funding for these increases is available either through the authorized tuition rate increases or through efficiencies. In the Community College system these funds may be used for part-time faculty pay disparities or to increase the number of full-time faculty.

FACULTY RETENTION POOL -- \$6.4 MILLION GF-S

Additional funding is provided for the state's research institutions to recruit and retain faculty.

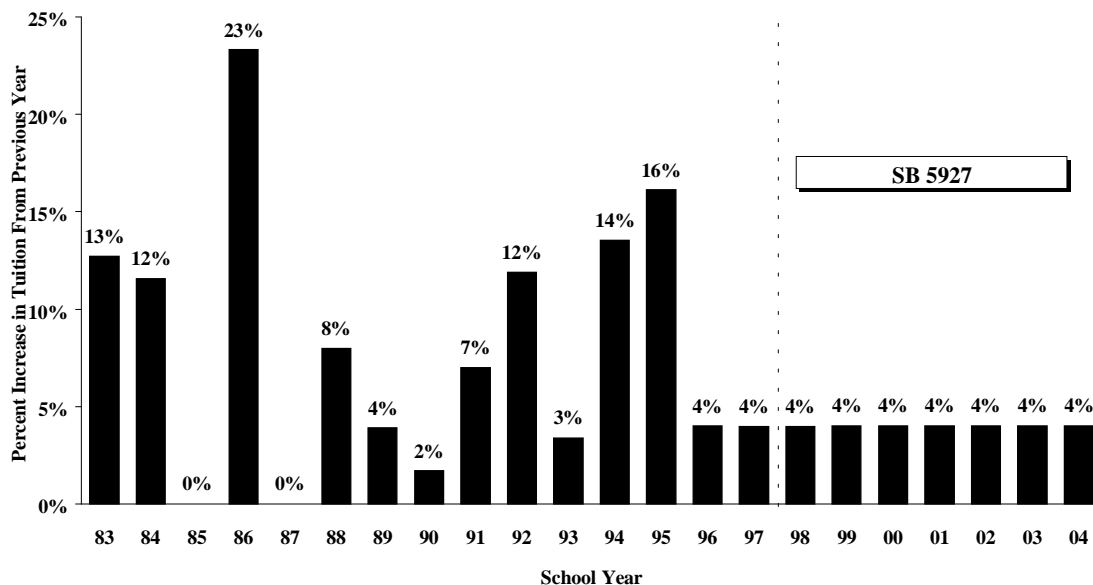
COMMUNITY COLLEGE FACULTY INCREMENTS -- \$3.1 MILLION GF-S

State funding and salary turnover savings is combined to pay for faculty increments.

TUITION

As shown in the chart below, Senate Bill 5927 limits the growth of tuition to 4% per year or the growth in per capita personal income, whichever is lower. Students and parents can be assured of that the cost of higher education will not outpace the growth in earning power. The bill also provides assurances that state funding for enrollment growth will match predicted population growth and that accountability measures are implemented which ties state appropriations to colleges and universities to their performance.

RESIDENT UNDERGRADUATE TUITION
Full-Time Academic Year Tuition by Year



SENATE BUDGET PROPOSED NEW ENROLLMENTS

1997-99 Biennium

	<u>Biennial</u>	<u>Change</u>			<u>Revised</u>	
	<u>Base</u>	<u>FY98</u>	<u>FY99</u>	<u>Total</u>	<u>97-99</u>	<u>% Chg</u>
ALL SCHOOLS	194,735	2,547	3,904	6,451	201,186	3.3%
University of Washington	32,504	482	482	964	33,468	3.0%
Main	30,455	288	151	439	30,894	1.4%
Evening	617	9	9	18	635	2.9%
Bothell	685	81	175	256	941	37.4%
Tacoma	747	104	147	251	998	33.6%
Washington State University	19,330	180	586	766	20,096	4.0%
Main	17,403	0	336	336	17,739	1.9%
Spokane	352	30	50	80	432	22.7%
Tri-Cities	724	70	70	140	864	19.3%
Vancouver	851	80	130	210	1,061	24.7%
Central Washington University	7,256	108	108	216	7,472	3.0%
Eastern Washington University	7,825	0	0	0	7,825	0.0%
The Evergreen State College	3,406	51	51	102	3,508	3.0%
Western Washington University	10,038	149	149	298	10,336	3.0%
HECB Timber Worker	50	0	0	0	50	0.0%
Community/Technical Colleges	114,326	1,577	2,528	4,105	118,431	3.9%
Community Colleges	93,406	1,387	2,223	3,610	97,016	3.9%
Technical Colleges	13,220	190	305	495	13,715	3.7%
CTCs Timber Worker	500	0	0	0	500	0.0%
Workforce Training	7,200	0	0	0	7,200	0.0%

COMPENSATION

ACROSS-THE-BOARD SALARY INCREASES -- \$296.8 MILLION GF-S, \$66.3 MILLION OTHER FUNDS

The Senate budget provides a 3% salary increase to all state and higher education employees beginning July 1, 1997 and to K-12 employees beginning September 1, 1997. The last time across-the-board increases were granted was July 1995 for state and higher education employees and September 1995 for teachers.

SOCIAL SERVICE VENDOR RATE INCREASE -- \$50.0 MILLION GF-S, \$41.8 MILLION OTHER FUNDS

Private individuals and agencies who provide social and other services to the state will receive a 3 percent increase effective July 1, 1997. This cost of living increase will be provided for groups and individuals which contract with DSHS to provide home care, foster care, child care, community residential care, community mental health services, vocational training and other community based services. Also, Department of Corrections work release facility contractors and educational services providers and Early Childhood Education and Assistance Program (ECEAP) vendors and the Washington Association of Sheriffs and Police Chiefs will receive the cost of living increase.

Senate Budget Across-the-Board Salary Increases (Dollars in Millions)

GROUP	GF-S	OTHER	EFFECTIVE DATE
K-12	\$176.4	\$0.0	September 1, 1997
Higher Education	\$57.9	\$0.0	July 1, 1997
State	\$62.5	\$66.3	July 1, 1997
Contracted Vendors	\$50.0	\$41.8	July 1, 1997
Sub Total	\$346.8	\$108.1	

LONGEVITY, EDUCATION AND EXPERIENCE INCREMENTS -- \$116.8 MILLION GF-S, \$22.1 MILLION OTHER FUNDS

In addition to the funding provided for the across-the-board salary increase, the Senate recognizes that employees receive salary increases through other mechanisms. For example, longevity increases for state employees will provide an additional \$20.8 million GF-S and \$42.9 million all funds next biennium increasing salaries by an average of 1.0 percent per year. Education and

experience increments for K-12 employees will provide approximately an additional \$96.0 million GF-S next biennium, increasing K-12 salaries by an average of 1.5 percent each year.

PERSONNEL RESOURCES BOARD PRIORITIES SALARY ADJUSTMENTS -- \$21.0 MILLION GF-S, \$8.1 MILLION OTHER FUNDS

The Senate budget provides an additional \$21.0 million GF-S and \$29.1 in total funds for state employee salary increases under SSB 6767 (chapter 319, Laws of 1996). The Legislature identified several high-priority compensation issues for classified personnel, including salary inequities, recruitment and retention, and compensation for increased duties and responsibilities. The Senate budget funds 17 of the 23 classification titles on the priority list as seen in the table below. These increases will be implemented July 1, 1997.

**SB 6767 Priority List Funded in the Senate Budget
(Dollars in Thousands)**

Job Title	Positions	Percent Increase	GF-State	Total
Clerical Workers	5,411	5.0%	\$4,803	\$10,794
Physicians	13	20.0%	254	405
Dental Workers	36	20.0%	465	581
Pharmacists	87	10.0%	507	774
Maintenance Custodians	98	5.0%	176	196
Medical Records Technicians	43	15.0%	201	263
Fish & Wildlife Biologists	468	5.0%	2,273	2,675
Fish & Wildlife Enforcement Officers	186	5.0%	759	809
Habitat Technicians	49	5.0%	54	54
Fiscal Technicians	431	10.0%	1,086	2,000
Safety Workers	41	5.0-7.5%	78	126
Park Rangers	235	5.0%	1,226	1,273
Park Aides	321	5.0%	158	200
Correctional Officers & Sergeants	2,876	5.0%	8,600	8,600
Community Corrections Specialists	21	5.0%	92	92
Tax Information Specialists	20	11.0%	122	122
Industrial Relations Specialists	20	7.5%	154	154
TOTAL	10,356	--	\$21,008	\$29,117

ASSISTANT ATTORNEYS GENERAL -- \$500,000 GF-S, \$500,000 OTHER FUNDS

The Senate budget provides \$1.0 million to fund a portion of the second phase of the 1994 Assistant Attorney General compensation study. This will give adjustments to Assistant Attorney General 1 and 2 classifications.

FACULTY AND PROFESSIONAL PAY INCREASE -- \$28.6 MILLION OTHER FUNDS

Colleges and Universities are given authority to provide an additional 1% pay increase in 1997 and an additional 2% pay increase in 1998. Funding for these increases is available either through the authorized tuition rate increases or through efficiencies.

FACULTY RETENTION POOL -- \$6.4 MILLION GF-S

Additional funding is provided for the state's research institutions to recruit and retain faculty.

COMMUNITY COLLEGE FACULTY INCREMENTS -- \$3.1 MILLION GF-S

State funding and salary turnover savings is combined to pay for faculty increments.

EMPLOYEE HEALTH BENEFITS AND RETIREE HEALTH BENEFIT SUBSIDY -- \$40.3 MILLION GF-S, \$50.0 MILLION TOTAL FUNDS

The Senate budget funds medical inflation increases of 4.4% in calendar year 1998 and 4.6% for calendar year 1999. Health benefit rates for state, higher education and K-12 employees, will be \$321.83 per month per employee for FY98 and \$336.05 per month per employee for FY99.

These rates assume full utilization of the surplus in the Health Care Authority Insurance Fund, except for a 1 percent contingency reserve.

HEALTH SERVICES ACCOUNT

One of the key challenges facing policymakers this year has been how to maintain programs funded from the Health Services Account within the available revenues. If no changes are made, the cost of the low-income medical care, public health, and health policy programs funded from the Health Services Account is projected to increase from \$549 million in the 1995-97 biennium to \$749 million in 1997-99. Three factors account for almost all of this increase:

- ❖ Growth in subsidized Basic Health Plan (BHP) enrollments from 46,000 people at the beginning of the 1995-97 biennium to 130,000 today, which has added approximately \$100 million to 1997-99 Health Services Account "carry-forward" costs.
- ❖ Growth in Medicaid enrollment by children whose families are not on welfare, but who have incomes below 200% of the federal poverty level. Almost a quarter of a million such children are expected to be covered by Medicaid in 1997-99, compared to 127,000 at the beginning of the 1995-97 biennium, adding approximately \$55 million to 1997-99 Health Services Account costs.
- ❖ Higher BHP and Medicaid costs per covered person as a result of medical inflation, which has added approximately \$40 million to 1997-99 costs.

In contrast to these expenditure increases, the revenues and fund balances available in the account are projected to total only \$584 million in 1997-99, resulting in a \$165 million Health Services Account deficit if no changes are made.

In addressing this shortfall, Senate budget writers were guided by three principles:

- ❖ **Maintain and, if at all possible, expand BHP and Medicaid coverage for low-income families.**
- ❖ **Do not impose any new taxes; and**
- ❖ **Devise a sustainable solution which does not create a new fiscal crisis in the next biennium.**

As shown in the pie chart on the following page, the Senate budget proposes to achieve these goals through a balanced package comprised of:

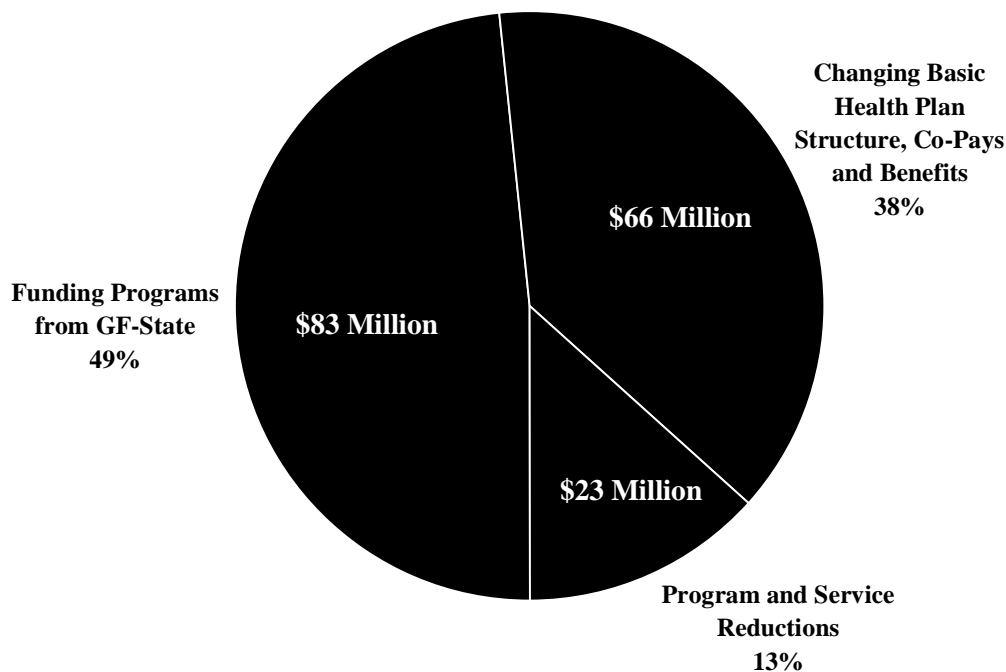
- ❖ Shifting \$83.0 million of programs currently funded from the Health Services Account to the state general fund in 1997-99. The Senate budget funds these programs within the total 1997-99 spending limit established by Initiative 601.
- ❖ Reducing or eliminating \$23 million of programs and services. These include eliminating the Health Care Policy Board (\$4.4 million); reducing training and data

systems support for public health officials (\$2.6 million); eliminating BHP marketing, outreach, and insurance broker commissions (\$2.5 million); reducing health professional shortage-area identification and recruitment (\$2.1 million); and eliminating state funding for health care data standards development (\$1.6 million).

- ❖ Making \$66.2 million of changes in the BHP subsidy structure, co-payment schedule, and benefits package. These changes are outlined on the next page.

Senate Proposal for Balancing the Health Services Account

(Dollars in Millions)



In addition to the expenditure changes described above, the Senate budget also anticipates that Health Services Account revenues will increase as a result of clarification of the point in the retail process at which the tobacco products tax is to be levied (\$2.9 million); and increased Liquor Control Board enforcement of existing cigarette tax requirements (\$7.8 million). The Senate budget uses these increased revenues to enroll 5,000 additional people in the Basic Health Plan effective July 1, 1997. This will bring average monthly subsidized enrollment in the plan to 135,000. When combined with the 5,000 people who go on and off the BHP each month because they get a job with health benefits or for other reasons, this will mean that almost 200,000 unduplicated people will receive subsidized medical coverage through the BHP each year during 1997-99.

BASIC HEALTH PLAN CHANGES IN THE PROPOSED SENATE BUDGET

(\$66 Million Savings)

THE SENATE PROPOSAL INCLUDES THE THREE CHANGES SUGGESTED BY THE GOVERNOR, WHICH SAVE \$31.4 MILLION:

- ❖ Pegging the state subsidy to the cost of the lowest-priced bidder;
- ❖ Raising the minimum premium from \$10 to \$12 for people between 66%-100% of poverty, and to \$15 for people between 100%-125% of poverty;
- ❖ Increasing co-payments from \$8 to \$10 for office visits; from \$50 to \$100 for hospital admissions; from \$25 to \$50 for emergency room visits; and from \$8 to \$25 for outpatient surgeries and procedures.

AND THE FOLLOWING ADDITIONAL CHANGES, WHICH SAVE \$34.8 MILLION:

- ❖ Requiring organizations which are paid to deliver BHP services to pay \$50 of the monthly premium for individuals whose BHP enrollment they wish to sponsor. The state would continue to subsidize the remaining 50-60% of enrollment costs.
 - ❖ Dropping the mental health benefit which was added to the BHP benefits package in 1996; and
 - ❖ Reducing the share of the monthly premium paid by the state by an average of about 30% for persons between 125%-200% of poverty. This would re-establish the subsidy levels which were in effect in 1993-95, before they were substantially increased in 1996.
-

WELFARE REFORM: EHB 3901

In August 1996, Congress fundamentally changed how welfare programs are operated and funded in the United States through passage of P.L. 104-193 -- The Personal Responsibility and Work Opportunity Reconciliation Act of 1996. In brief the new law:

- ❖ Eliminates Aid to Families with Dependent Children (AFDC) and replaces it with a temporary, work based program called Temporary Assistance to Needy Families (TANF).
- ❖ Institutes lifetime limits on receipt of public assistance and an expectation that those receiving welfare will work toward obtaining paid employment while receiving assistance.
- ❖ Eliminates the concept of federal and state sharing of costs for welfare. A new method of funding public assistance programs is created. Washington's TANF program is funded through a block grant - \$404 million in funding every year, regardless of how many families are on assistance.
- ❖ Allows flexibility in the level of state funding for welfare. Washington can choose how much state funding is provided for welfare, as long as state funding is at least \$290 million per year.
- ❖ Permits states to rethink their welfare programs without federal barriers to creativity.
- ❖ The federal legislation also terminates eligibility for most legal immigrants from public assistance programs, including food stamps, Supplemental Security Income (SSI), TANF and Medicaid (low income medical care). States may choose to provide assistance for legal immigrants who already reside in the state under TANF and Medicaid. States may pay for all public assistance for legal immigrants not yet residing in the state and for all legal immigrants under food stamps and SSI.

WorkFirst: Rethinking State Programs to Enable Families to Become Self-Sufficient

The Legislative Welfare Reform bill (EHB 3901) rethinks state programs serving poor families. The bill emphasizes a work-based approach which is proven to reduce welfare caseloads. DSHS is required to base program activities on specific outcome measures which indicate the effectiveness of each activity. The department is also held responsible for achieving welfare caseload reduction in implementing the WorkFirst program and may utilize creative methods for achieving goals.

- ❖ As in the federal legislation, the Legislature's plan makes a block grant of federal and state funds to DSHS. The department will receive all federal TANF and child care block grant funds and at least the state funding required by the federal law each year.
- ❖ DSHS may implement the WorkFirst program within the provisions of EHB 3901 to accomplish the intent of the bill. The bill encourages a rethinking of welfare to work programs. The Department may transfer funding between appropriation categories and among types of expenditure to achieve the goals set forth in EHB 3901. The Department may implement WorkFirst on a regional basis, tailoring welfare programs to the needs of each region of the state.
- ❖ DSHS is required to competitively contract with state agencies, nonprofit organizations and other entities for implementation of WorkFirst. Those entities showing the greatest success will be granted contracts to perform services in the program. The Department will be able to measure the success of each contractor and branch office involved in WorkFirst.

EHB 3901 maintains benefits for legal immigrants who arrived in the U.S. before passage of the bill. Funding is provided for legal immigrants to continue receiving cash benefits, food stamp benefits and Medicaid services. Immigrants arriving in the U.S. after passage of the bill must rely on their sponsors for support.

EHB 3901 - Implementing Welfare Reform Budget Overview

(Dollars in Millions)

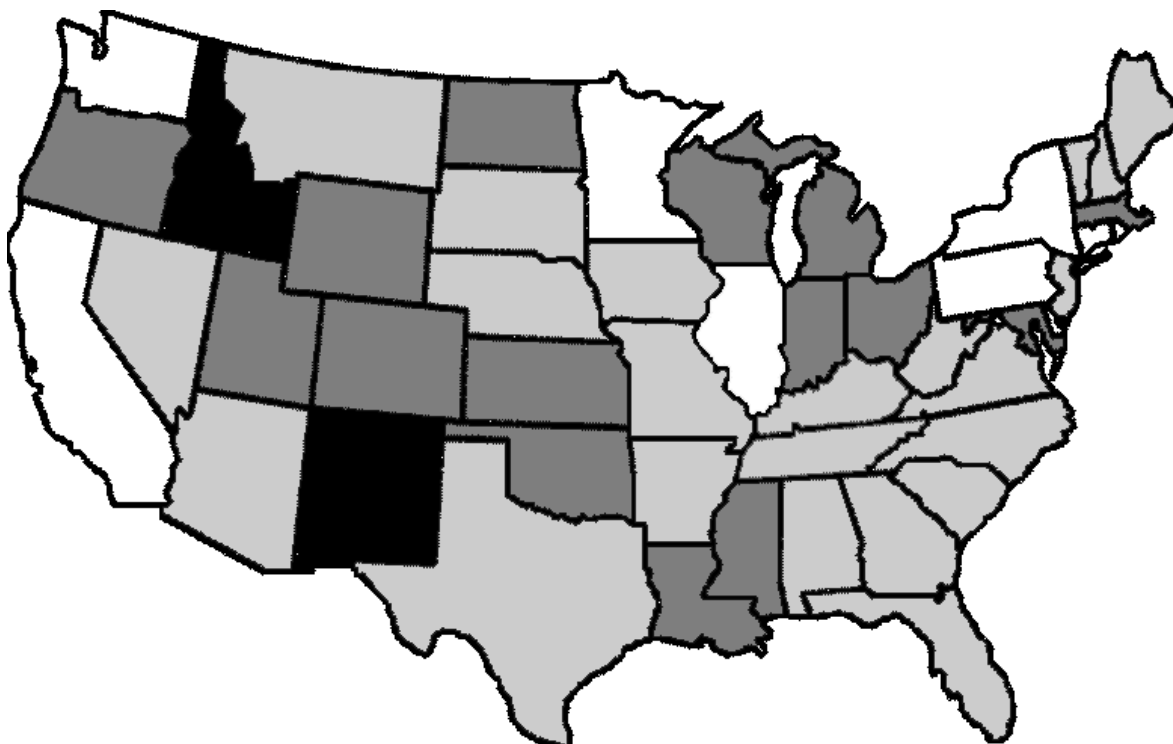
	<u>1997-99</u>
Federal TANF and Child Care Block Grant Funds Available	\$975
<u>GF-State Funds Provided as Required by Federal Law</u>	<u>626</u>
Total TANF Budget	\$1,601
<hr/>	
<i>Carryforward Cost of "Old" Welfare Program</i>	<i>\$1,443</i>
<hr/>	
Amount Available for "New" Initiatives	\$158
Legal Immigrants Food Program	\$65
Childcare, including federally required quality funds	90
Work Program Costs	53
<u>Other provisions requiring funding</u>	<u>20</u>
TOTAL	\$228
<hr/>	
<i>Savings from Caseload/Grant Reductions Necessary to Balance TANF Budget</i>	<i>(\$70)</i>
<hr/>	

WELFARE CASELOADS ARE DECLINING SIGNIFICANTLY IN MANY OTHER STATES

The Senate's welfare reform budget is predicated on the ability of the Department of Social and Health Services to achieve welfare caseload reductions sufficient to save about \$70 million in TANF program costs. This savings level equates to a caseload reduction of about 15% during the next two-years.

As can be seen in the chart below, during the past three years, the majority of states have experienced welfare caseload reductions of more than 10% and many states (including Oregon) have seen declines greater than 20%. During the same period, however, Washington state welfare caseloads have dropped by only 3%.

Changes in AFDC Caseloads: July 1993 to July 1996
Number of Families



Black	Increase in Caseloads (0% - 10%)
White	Small Decrease in Caseloads (0% - 10%)
Light Grey	Moderate Decrease in Caseloads (10% - 20%)
Dark Grey	Large Decrease in Caseloads (More than 20%)

HUMAN SERVICES

SOCIAL SERVICE VENDOR RATE INCREASE -- \$50.0 MILLION GF-S, \$41.8 MILLION OTHER FUNDS

Private individuals and agencies who provide social and other services to the state will receive a 3 percent increase effective July 1, 1997. This cost of living increase will be provided for groups and individuals which contract with DSHS to provide home care, foster care, child care, community residential care, community mental health services, vocational training and other community based services. Also, Department of Corrections work release facility contractors and educational services providers and Early Childhood Education and Assistance Program (ECEAP) vendors will receive the cost of living increase.

DSHS -- CHILDREN AND FAMILY SERVICES

ENHANCE FOSTER CARE SERVICES - \$22.5 MILLION GF-S, \$9.2 MILLION GF-FEDERAL

The Senate budget provides funding to improve foster care services provided by foster parents under contract to DSHS. Enhancements include funding for the increased foster care and adoption support caseloads, an increase in the foster care basic payment rate of \$25 per month per child, funding for recruitment and retention of foster parents and an increase in the rate paid to child care placing agencies.

MAINTAIN CPS SOCIAL WORKER CASELOAD - \$7.6 MILLION GF-S, \$11.0 MILLION GF-FEDERAL

The Senate budget provides funding for 130 additional social workers in Child Protective Services. The additional workers will maintain the ratio of workers to cases at 1:32 as funded in the 1996 supplemental budget.

FUNDING FOR LOCAL CONTINUUM OF CARE PROJECTS -- \$9.2 MILLION GF-S

The Senate budget provides funding for five existing and four new Continuum of Care and Street Youth projects. These local programs provide comprehensive care and treatment to at-risk and abused youth who are clients of the DSHS Children's Administration.

FUNDING FOR COMMUNITY NETWORKS -- \$3.4 MILLION VIOLENCE REDUCTION AND DRUG ENFORCEMENT ACCOUNT

The Senate budget provides the statutorily required level of funding for the Community Networks. State law requires that 7.5% of the Violence Reduction and Drug Enforcement Account expenditures be provided to the Community Networks for service delivery. This item increases the Networks' funding to equal the 7.5% requirement.

DSHS -- ALCOHOL AND SUBSTANCE ABUSE

EXPANSION OF CHEMICAL DEPENDENCY TREATMENT -- \$3.5 MILLION GF-S, \$2.0 MILLION GF-FEDERAL

The Senate budget provides an increase in funds for the state ADATSA program to provide chemical dependency treatment to persons who have lost eligibility for the federal Supplemental Security Income program (SSI) due to changes in the federal law. Those who successfully complete treatment may regain eligibility for SSI.

DSHS -- ECONOMIC SERVICES

GENERAL ASSISTANCE - UNEMPLOYABLE (GA-U) INCREASES -- \$84.6 MILLION GF-S

The Senate budget provides funding for legal immigrants and chemically dependent persons who lose Supplemental Security Income (SSI) eligibility due to changes in federal law. The GA-U program is a state entitlement program with a lower grant level than the SSI program.

GENERAL ASSISTANCE - UNEMPLOYABLE (GA-U) REDUCTIONS -- \$18.8 MILLION GF-S SAVINGS

The Senate budget narrows GA-U eligibility for recipients with certain behavioral limitations as proposed by the Governor. In addition, the budget provides for the implementation of legislation which requires that chemically dependent recipients participate in treatment for their addiction as a condition of eligibility for GA-U. Most of these recipients were receiving SSI benefits but they lost SSI eligibility when the federal law changed. Savings are realized through reductions in GA-U caseloads. Recipients subject to this provision will be facilitated onto SSI upon successful completion of treatment.

DSHS -- MEDICAL CARE FOR LOW-INCOME PEOPLE

MEDICAL ASSISTANCE PROGRAMS -- \$88 MILLION GF-S, \$65 MILLION HEALTH SERVICES ACCOUNT, \$317 MILLION GF-FEDERAL

The Senate budget provides funding for an average of about 770,000 people per month to receive medical care through Medicaid and other DSHS medical assistance programs in 1997-99. This is a 9% increase from 1995-97 in the average number of persons covered. Persons receiving state-funded coverage will include about 310,000 children and parents from families on welfare; about 255,000 children whose parents are not on welfare, but who have incomes below 200% of the federal poverty level; and about 160,000 low-income people who are elderly or disabled. To help pay for these increased service levels, the Senate budget includes the following efficiencies discussed below.

LIMIT MANAGED CARE RATE INCREASES -- \$18.3 MILLION GF-S SAVINGS, \$5.4 MILLION HEALTH SERVICES ACCOUNT SAVINGS, \$26.1 MILLION GF-FEDERAL SAVINGS

During 1997-99, almost all non-elderly medical assistance recipients will receive their medical care through managed care plans. Through the use of competitive bidding and contract negotiation strategies, DSHS is expected to limit increases in the average per-person rates paid to such plans to 2 percent per year in 1997-99. This is well below the 4.5% per year by which such rates would increase in 1997-99 if they kept pace with national projections of health care inflation.

REDUCE INTERPRETER SERVICES -- \$7.6 MILLION GF-S SAVINGS, \$1.0 MILLION HEALTH SERVICES ACCOUNT SAVINGS, \$9.9 MILLION GF-FEDERAL SAVINGS

Washington has been one of the very few states which pays for personal interpreters to accompany medical assistance recipients who have limited English-speaking ability to medical and dental appointments. As proposed by the Governor, the Senate budget requires DSHS to discontinue this practice in 1997-99. To assist medical providers to arrange interpreter services when they are truly needed, the state will expand availability of "interpreter lines" which providers may call toll-free to access interpreter services in more than 100 different languages.

PREMIUM-SHARING FOR ADULT WELFARE RECIPIENTS -- \$5.5 MILLION GF-S SAVINGS, \$6.1 MILLION GF-FEDERAL SAVINGS

As proposed by the Governor, the Senate budget directs that adults who are not elderly or disabled should contribute \$10 per month toward the cost of their medical coverage, just as low-income Basic Health Plan enrollees do. Implementation of this approach will require a waiver of federal rules, which is not expected before the second year of the 1997-99 biennium.

PAYMENTS FOR DRUG INGREDIENT COSTS -- \$4.7 MILLION GF-S SAVINGS, \$4.5 MILLION GF-FEDERAL SAVINGS

DSHS currently pays pharmacies about 4% more for drugs than the state pays for employees who are enrolled in the Uniform Medical Plan (UMP). Since there is no evidence that UMP payment levels are insufficient to attract enough participating pharmacies, the Senate budget provides for payments closer to the UMP level in 1997-99.

DSHS -- LONG-TERM CARE

COMMUNITY CASELOAD GROWTH -- \$41.4 MILLION GF-S, \$51.8 MILLION GF-FEDERAL

Under the Senate budget, the number of elderly and disabled people receiving long-term care in their own homes, adult family homes, boarding homes, and assisted living apartments will increase by about 3,000 each year of the 1997-99 biennium. This is a 13% average annual rate of growth, which is almost four times the projected increase in the state population aged 75 and over. To support such rapid caseload growth within spending limits, the Senate budget directs DSHS to manage the mix and level of services so that the average cost per person served does not increase above the 1997 level (adjusted for the 3% vendor rate increase). Such management will avoid \$18 million of GF-S expenditure growth which the agency estimates would otherwise occur in 1997-99.

ALTERNATIVES TO NURSING HOME CARE -- \$4.7 MILLION GF-S SAVINGS, \$5.1 MILLION GF-FEDERAL SAVINGS

More and more people who would previously have lived in a nursing facility are instead opting to receive care in their own home, an adult family home, an assisted living apartment, or other residential facility. Because of the increased availability of such alternatives, the number of people receiving state-funded nursing home care has decreased by about 1,600, or 10%, in the past two years. The Senate budget assumes this trend will continue, but at a slower pace. Specifically, the budget anticipates that the state-funded nursing home population will decrease by an additional 5%, or 720 people, by the end of the 1997-99 biennium. After funding new

community services for the people diverted or moving from nursing homes, this will result in a net reduction in public expenditures.

COMMUNITY LONG-TERM CARE QUALITY ASSURANCE -- \$2.4 MILLION GF-S, \$2.4 MILLION GF-FEDERAL

To help assure that community long-term care programs are providing safe and quality care, the Senate budget funds a number of improvements. These include hiring additional licensing staff so that adult family homes can be inspected an average of at least once each year; employing additional Area Agency on Aging case managers to monitor the delivery of in-home care by individual providers; doubling the number of registered nurses employed in state long-term care offices to assure that clients are receiving the type and level of medical care they need; and expanding training for adult family home managers.

DSHS -- SERVICES FOR PERSONS WITH DISABILITIES

DEVELOPMENTAL DISABILITIES PERSONAL CARE -- \$7.9 MILLION GF-S, \$8.4 MILLION GF-FEDERAL

Each year of the 1997-99 biennium, the Senate budget provides funding for an average of 350 additional children and 500 additional adults to receive assistance and supervision with daily living activities in their own homes or in adult family homes. This is equivalent to an 11% average annual increase in the number of adults receiving assistance, and a 23% average annual increase in the number of children served. To support such rapid caseload growth within spending limits, the Senate budget directs DSHS to manage the mix and level of services so that the average cost per person served does not increase above the 1997 level (adjusted for the 3% vendor rate increase). Such management will avoid \$0.9 million of GF-S expenditure growth which the agency estimates would otherwise occur in 1997-99. To further limit the rate of expenditure growth, the Senate budget concurs with the Governor's proposal that payments to parents caring for a child in their own home be limited to a maximum of \$563 per month.

DEVELOPMENTAL DISABILITIES HIGH SCHOOL TRANSITION -- \$5.9 MILLION GF-S, \$3.7 MILLION GF-FEDERAL

The Senate budget provides funding for job training and placement services, or other productive daytime activities, for the approximately 900 young people with developmental disabilities who are expected to graduate from special education programs during the 1997-99 biennium. The budget also funds a full biennium of supervision and assistance at either a supported job, or another daytime activity, for approximately 500 young people who entered post-school programs in 1995-97, and require such assistance on an ongoing basis.

MENTAL HEALTH CASELOAD GROWTH -- \$2.5 MILLION GF-S, \$5.7 MILLION GF-FEDERAL
Regional Support Networks (RSN's) will receive additional funding to help them keep pace with growth in the number of children and adults eligible for Medicaid. The Senate budget directs that such increases be directed primarily to the eight RSN's which currently receive less than the statewide average amount of funding per Medicaid-eligible recipient.

ADULT FAMILY HOME QUALITY ASSURANCE -- \$0.8 MILLION GF-S, \$0.5 MILLION GF-FEDERAL

Two enhancements are funded to help assure that adult family homes are equipped to serve the approximately 1,000 adults with developmental disabilities who live in such facilities. First, the frequency of case manager monitoring and assistance visits is to be doubled by hiring eight additional case managers. Second, funding is provided to double the amount of training provided to managers of homes which serve people with developmental disabilities.

MENTAL HEALTH SYSTEMS INTEGRATION -- \$4.3 MILLION GF-S SAVINGS, \$3.0 MILLION GF-FEDERAL SAVINGS

Mental health community hospitalization services are to be integrated with outpatient services under a single capitated managed care system. This is expected to promote a better match between client service needs and the type of care they receive; better preventative and follow-up care; and a projected 25% reduction in expenditures for hospital care. The Senate budget provides for about one-third of this reduction to be a direct savings to taxpayers. The balance of the savings will be used to administer the integrated system, and to provide case management, outpatient, and other services for persons at risk of hospitalization.

DSHS -- ADMINISTRATION

REDUCE DSHS ADMINISTRATION -- \$2.0 MILLION GF-S SAVINGS, \$1.4 MILLION TOTAL GF-FEDERAL SAVINGS

The Senate budget reduces administration in the Department of Social and Health Services as proposed by the Governor. In order to implement the reduction effectively, transfers may be made from the Department's division administration budgets to the central administration budget, allowing reductions to be made in the most appropriate program.

DEPARTMENT OF HEALTH

AIDS DRUG PROGRAM FUNDING -- \$4.6 MILLION GF-S, \$3.4 MILLION GF-FEDERAL FUNDS

The Senate budget provides funding for the AIDS Prescription Drug Program. The program's structure is changed to limit expenditures from the program to estimated levels of expenditure at April 1997. The limit is to be implemented through changes in eligibility or benefit levels.

FUND TRAUMA CARE SERVICES -- \$25.7 MILLION EMERGENCY MEDICAL AND TRAUMA CARE ACCOUNT

The Senate budget funds SSB 5127 - Funding Trauma Care Services. The bill directs that a fee be charged for all title transactions involving automobiles. The fee will be deposited into the Emergency Medical and Trauma Care Services Account for providing grants to local trauma care providers to improve the state's trauma care system. Grants require regional matching funds of at least 25% of the total amount provided.

CRIMINAL JUSTICE

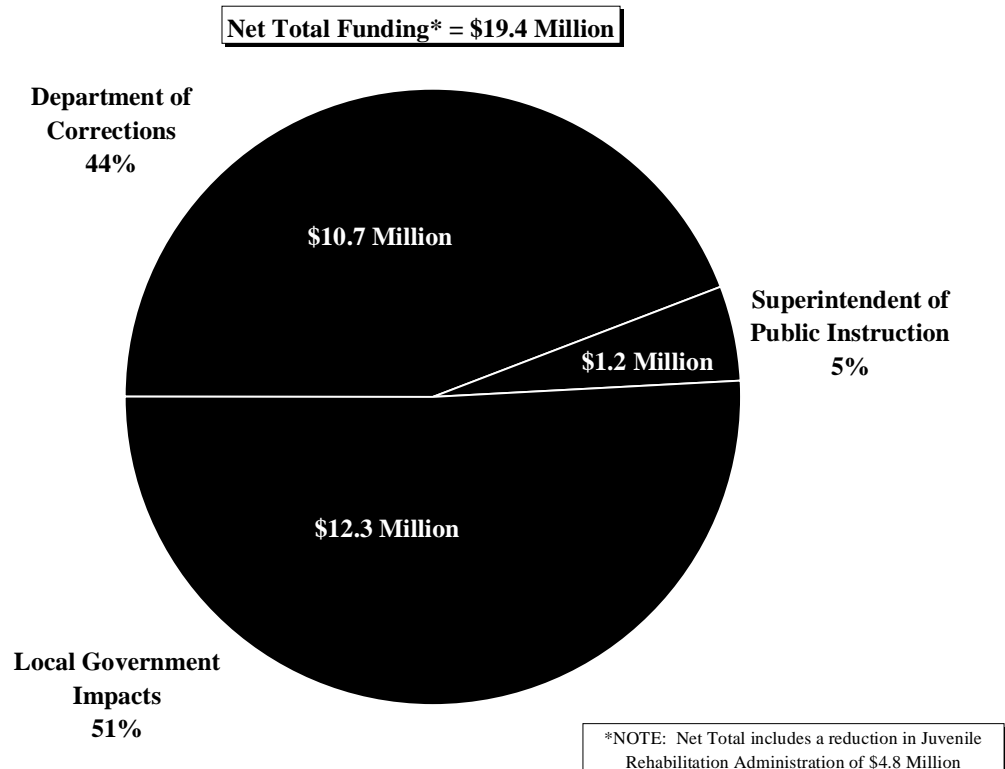
JUVENILE JUSTICE

The Senate budget provides funding for a comprehensive juvenile justice proposal. The proposal makes a variety of changes to juvenile offender issues. Major provisions include:

- ❖ Sentencing 16 or 17-Year Old Violent Juvenile Offenders as Adults
- ❖ Revising the Juvenile Disposition Grid
- ❖ Increasing Disposition Standards & Firearm Enhancements
- ❖ Providing for New Disposition Alternatives
- ❖ Increasing Judicial Discretion with Respect to Juvenile Offenders
- ❖ Requiring Increased Parental Involvement and Accountability from Juvenile Offenders

The funding provided for this proposal is depicted in the chart below and is summarized on the next page.

Summary of Funding of the Juvenile Justice Proposal



INCARCERATION OF VIOLENT JUVENILE OFFENDERS -- \$10.7 MILLION GF-S

The provision which requires the automatic transfer of 16 or 17-year old violent juvenile offenders to the adult system will impact the Department of Corrections' institutional and community divisions. The Senate budget provides funding for expected impact for the 1997-99 biennium.

DECREASE IN JUVENILE REHABILITATION ADMINISTRATION POPULATION -- \$4.8 MILLION GF-S SAVINGS, \$251,000 GF-FEDERAL SAVINGS, \$2,000 GF-LOCAL SAVINGS

Some provisions of the juvenile justice proposal will increase the number of juvenile offenders served by the Juvenile Rehabilitation Administration. However, the net result, when combined with the provision which requires the automatic transfer of 16 or 17-year old violent juvenile offenders to the adult system, is a decrease in JRA's institutional, community residential, parole and other community programs. Consequently, the Senate budget reduces JRA funding commensurate with the decreased workload.

LOCAL IMPACT OF JUVENILE JUSTICE LEGISLATION -- \$12.3 MILLION GF-S

The Senate budget provides funding for the local government costs associated with implementing the various provisions of the juvenile justice proposal. The costs funded include: adult courts and jails; juvenile courts; juvenile detention facilities; and juvenile probation.

EDUCATION IMPACTS OF JUVENILE JUSTICE LEGISLATION -- \$1.2 MILLION GF-S

The various provisions of the juvenile justice proposal will affect K-12 institutional education program in two ways: (1) there will be an increase in the number of juveniles in county detention facilities; and (2) there will be an increase in fiscal year 1998, followed by a steady decrease, as 16 or 17 year old violent juvenile offenders who previously would have been incarcerated in the Juvenile Rehabilitation Administration are transferred to the adult system. The net fiscal impact is an increase in educational costs.

DEPARTMENT OF CORRECTIONS

CONSOLIDATIONS, ADMINISTRATIVE REDUCTIONS, AND EFFICIENCIES -- \$8.3 MILLION GF-S SAVINGS

In their five percent budget reduction options presented to the Governor, the Department of Corrections identified a variety steps that could result in significant cost savings. These steps include: administrative reductions; consolidation of certain programs and functions; better management of overtime; savings in goods and services and equipment; and various other efficiencies in operations. The Senate budget assumes that the Department will implement these and other measures in order to achieve savings. These savings will not result in custody staff reductions.

HEALTH CARE COST CONTAINMENT -- \$5.1 MILLION GF-S SAVINGS

A recently completed independent evaluation identified further cost containment strategies for delivering and managing inmate health care in Department of Corrections' facilities. The expected savings from the implementation of these strategies is projected at \$5.1 million in the 1997-99 biennium.

DEPORTATION OF ILLEGAL ALIEN OFFENDERS -- \$1.1 MILLION GF-S SAVINGS

SB 6075 will streamline the process by which illegal alien offenders can be deported and is projected to result in at least \$1.1 million in savings from reduced incarceration costs.

DSHS -- JUVENILE REHABILITATION ADMINISTRATION**MEDICAL LAKE CLOSURE -- \$4.7 MILLION GF-S SAVINGS**

The Juvenile Rehabilitation Administration had proposed to open an 80-bed juvenile offender facility on the grounds of Eastern State Hospital. The annual operational costs for each of these beds would be significantly higher than the cost for most other beds in the JRA system. In addition, the current population projection is substantially less than the maximum operating capacity of the JRA system. Therefore, the Senate budget assumes that JRA will not open this facility.

PAROLE TARGETING -- \$2.0 MILLION GF-S SAVINGS, \$344,000 GF-FEDERAL SAVINGS

Currently, the average length of stay for juvenile non-sex offenders is approximately sixteen weeks. Parole standards require two to three monthly contacts with a parole counselor and participation in available treatment services. Research does not exist that indicates that this level of parole supervision has a significant impact on offender behavior. Consequently, the Senate budget assumes that JRA will target parole services to sex offenders and approximately 25% of offenders assessed as high-risk.

EFFICIENCIES IN JRA -- \$1.5 MILLION GF-S SAVINGS

The Senate budget recognizes cost savings achieved by consolidating administrative functions, improving efficiencies in on-going activities, and applying internal best practices throughout the JRA system.

OTHER CRIMINAL JUSTICE**STATE PATROL FUND SHIFT -- \$12.2 MILLION GF-S**

In the 1993-95 biennium, funding responsibility for a portion of certain State Patrol programs and activities were transferred from operating budget to the transportation budget. Because of the demand on the transportation budget in the 1997-99 biennium, the Senate budget provides general-fund state funding for these programs and activities. The items transferred include: Governor's air travel; the license fraud program; the special services unit; crime laboratories; the law enforcement ACCESS computer system; the identification section; the executive protection unit; and certain administrative functions.

CONTINUATION OF THE INDETERMINATE SENTENCE REVIEW BOARD -- \$1.1 MILLION GF-S

The Senate budget provides for the continuation of the board that has jurisdiction over offenders sentenced prior to the implementation of the Sentencing Reform Act in 1984. In addition, the budget includes additional funding for the board's new duties and responsibilities pursuant to SSB 5006 -- the Determinate Plus legislation. This measure requires the board to set the release date and provide oversight of felony sex offenders sentenced after July 1, 1997.

NATURAL RESOURCES

ADDITIONAL WILDLIFE ENFORCEMENT -- \$835,000 GF-S, \$360,000 WILDLIFE FUND

The Senate budget provides funding for five additional wildlife enforcement officers. This funding will help improve management of problem wildlife, increase public safety and protect wildlife resources. Funding is also provided to contract with the U.S. Department of Agriculture to increase animal damage control efforts to protect crops, livestock and property. The Senate budget also funds a comprehensive program to address damage caused by the Canadian dusky goose population in the lower Columbia River basin.

DEVELOPMENT OF AN AUTOMATED HUNTING LICENSE SYSTEM -- \$387,000 GF-S, \$300,000 WILDLIFE FUND

Every year the Department of Fish and Wildlife issues nearly 2 million licenses to hunters and fishers, generating millions of dollars in revenue to support the state's fish and wildlife programs. This old, paper-based license system can be cumbersome and inefficient. The Senate budget provides funding for the design and development of a new automated license sales system for the 21st century. An automated system will help the department respond to audit findings and will be easier for both vendors and license buyers to use.

RESPONDING TO POTENTIAL SALMON LISTINGS UNDER THE ENDANGERED SPECIES ACT -- \$1.7 MILLION GF-S

The National Marine Fisheries Service has proposed listing additional Chinook, Coho and steelhead salmon in Washington as threatened or endangered under the federal Endangered Species Act. The Senate budget provides funding for additional staff to work on the federal permits, research and consultations that these listings will require.

FISH & WILDLIFE LANDS STEWARDSHIP -- \$600,000 GF-S

Funding is provided to hire four new Washington Conservation Corps crews to employ and train young adults and accomplish a variety of much-needed maintenance and restoration work on state-owned wildlife lands.

JOBS & THE ENVIRONMENT PROGRAM -- \$4.1 MILLION WATER QUALITY ACCOUNT, \$1.5 MILLION RESOURCE MANAGEMENT COST ACCOUNT, \$500,000 FOREST DEVELOPMENT ACCOUNT

Funding is provided to continue restoration work in priority watersheds to benefit anadromous fish stocks. Continued funding for the program will help improve habitat for endangered salmon while providing employment for displaced natural resource workers.

HABITAT PARTNERSHIPS -- \$1.0 MILLION GF-S

Continued funding is provided for the Habitat Partnership program, which provides technical assistance to landowners and local governments in support of fish and wildlife habitat planning activities. This program will also continue to streamline the hydraulic project approval process.

WATER RESOURCE MANAGEMENT AND STATE SUPPORT FOR LOCAL WATER RESOURCE PLANNING -- \$5.7 MILLION GF-S

The Senate budget provides funding for grants to local communities to support local solutions to water resource needs. Funds would be provided after a legislative review of water resource laws and policies in 1997. Funding is also provided to implement several water policy bills.

FIRE PROTECTION PROGRAM -- \$4.2 MILLION GF-S

The Department of Natural Resource's fire protection program provides fire protection services to most non-federal forest lands throughout the state. The program is funded through a mix of assessments on landowners and state general funds. The Senate budget provides additional general fund support in order to maintain an adequate fire protection program in the 1997-99 biennium without raising the landowner assessment (\$1.5 million in the 1997 Supplemental budget and \$2.7 million in the 1997-99 Biennial budget).

MAINTAINING STATE PARKS OPERATIONS AND OPENING NEW PARK FACILITIES -- \$5.4 MILLION GF-S

Due to an expected shortfall in park-generated revenues, additional funding is required in order to keep existing parks open during the next biennium. Instead of authorizing day use fees, the Senate budget provides \$2.4 million GF-S in the 1997 Supplemental Budget and \$1.0 million GF-S in the 1997-99 Biennial budget so that parks can remain open. The budget also provides funds to open a number of new facilities that were constructed in the 1995-97 biennium.

LITTER CLEANUP AND PREVENTION --\$4.5 MILLION WASTE REDUCTION, RECYCLING AND LITTER CONTROL ACCOUNT

The Senate budget provides increased funding to help clean up litter along the state's roadways. The Department of Ecology will receive funding to hire more Ecology Youth Corps crews to pick up litter in areas that are visible to the public. Funding is also increased for grants to local governments for litter cleanup programs, as well as for public education programs to control litter and promote awareness of the state's Model Litter Control and Recycling Act.

DEPARTMENT OF FISH & WILDLIFE REDUCTIONS --\$2.9 MILLION GF-S SAVINGS, \$360,000 WILDLIFE FUND SAVINGS

The Senate budget reduces funding for both general fund-state and Wildlife Fund-supported programs in order to help fund new initiatives. Savings are found in the fisheries management program, hatchery operations, the aircraft division, and administrative functions.

DEPARTMENT OF ECOLOGY REDUCTIONS -- \$1.3 MILLION GF-S SAVINGS, \$245,000 GF-FEDERAL SAVINGS

The Senate budget includes reductions in the Department of Ecology's Shorelands program and in project coordination and administrative staff.

DEPARTMENT OF NATURAL RESOURCES REDUCTIONS -- \$1.7 MILLION GF-S SAVINGS

The Senate budget includes a 5 percent reduction to general fund-state supported programs administered by the Department of Natural Resources. The department is directed to find these savings without affecting legislatively-authorized funding for the fire protection and fire suppression programs next biennium.

GENERAL GOVERNMENT

STATEWIDE YEAR 2000 COMPUTER PROGRAMMING SITUATION -- \$5.3 MILLION GF-S, \$13.1 MILLION OTHER FUNDS

Twenty years ago, data storage costs were extremely expensive. As an efficiency measure, the industry standard for dates provided only two fields. For example, 1997 would be entered as “97.” More recent systems use a standard which adds two fields for the century. The old method presents a problem for the century change when systems interpret “00” as “1900” rather than “2000.” The systems can produce incorrect results when performing arithmetic operations, comparisons or sorting on the date field. The impact of the problem will be felt well before 2000 as some applications automatically enter dates beyond 1999 in projections. This issue will affect not only governments but also private industry worldwide.

While Washington State is ahead of many other governments, much work remains. According to the Department of Information Services’ current estimates, agencies will be able to absorb about \$22 million of the year 2000 reprogramming costs in the 1997-99 biennium. Agencies requested about \$23 in additional funds to convert and test systems. The Senate budget recommended funding \$18.4 million of the agency requests including \$5.3 million in state general fund dollars. In addition, the Senate provides a contingency pool which reflects the unknown risks associated with the problem.

DISASTER RECOVERY ACTIVITIES -- \$23.7 MILLION DISASTER RESPONSE ACCOUNT-STATE, \$93.8 MILLION DISASTER RESPONSE ACCOUNT-FEDERAL

The Senate budget provides state matching funds required for Federal Emergency Management Agency assistance for repairing the damage caused by recent storms and floods. In addition, due to the enormous damage caused by the February 1996 floods, the Senate continues to fund the local government match requirements for this specific disaster.

JUDICIAL INFORMATION SYSTEM -- \$12.9 MILLION JUDICIAL INFORMATION SYSTEM ACCOUNT

The Senate budget provides funding for the continued improvements and upgrades to the judicial information system. The computer system is currently used by 305 courts across the state for scheduling cases, recording fines and payments, managing court calendars, and tracking a defendant's criminal history. The funding provided will ensure that all components of the JIS system are Year 2000 compliant, and that the system is adequately maintained.

CIGARETTE TAX ENFORCEMENT -- \$3.1 MILLION GF-S

The Senate budget provides funding for the implementation of legislation that transfers the enforcement of cigarette and tobacco taxes from the Department of Revenue to Liquor Control Board. As a result of the transfer and the new enforcement officers provided in the Senate budget, the lost revenue due to cigarette and tobacco tax evasion is expected to be dramatically reduced.

ASSISTANT ATTORNEY GENERAL SALARY INCREASES -- \$0.5 MILLION GF-S, \$0.5 MILLION OTHER FUNDS

Funding is provided for selective salary increases for the Attorney General to retain experienced legal staff by providing competitive salaries for Assistant Attorneys General.

IDAHO MINING LITIGATION -- \$600,000 GF-S

Heavy metals from Idaho-based mining companies are polluting Lake Coeur d'Alene and the Spokane River, with potential pollution of the Spokane aquifer. Initial funding is provided for assessment of the damage to public health and the environment, in preparation for legal action by the Attorney General against the polluting companies.

INCREASED OVERSIGHT OF LIFE INSURANCE MARKETING -- \$600,000 INSURANCE COMMISSIONER'S REGULATORY ACCOUNT.

A recently revised settlement with the Prudential Insurance Company will provide restitution to Washington policyholders, as well as making \$600,000 available to the state for increased regulatory oversight of the marketing practices of Prudential.

PERFORMANCE AUDIT OF THE DEPARTMENT OF TRANSPORTATION -- \$514,000 GF-S

The Joint Legislative Audit & Review Committee is directed to conduct a two-year performance audit of the Department of Transportation. The audit will review the efficiency and effectiveness of the department's programs.

ENHANCED PUBLIC DISCLOSURE FUNCTIONS -- \$430,000 GF-S

The use of technology by the Public Disclosure Commission will improve the filing of public disclosure documents and enhance public access via the Internet, fax-on-demand technology, document imaging, and other customer service improvements.

COMMUNITY, TRADE & ECONOMIC DEVELOPMENT PROGRAM REDUCTIONS -- \$2.7 MILLION GF-S SAVINGS

The Senate budget finds savings in a variety of Community, Trade and Economic Development programs, including growth management, international trade programs, community and business finance programs, business recruitment activities, and administrative functions.

MAJOR REVENUE ADJUSTMENTS

REVENUE ADJUSTMENTS AND OTHER APPROPRIATIONS

Major Tax Reduction Legislation		1997-99
SB 5835	Limiting property taxes	(\$194.6)
SB 7902	Lowering B&O tax rates	(193.4)
C 2, L 97	4.7% reduction in state property taxes	(26.4)
TOTAL		(\$414.4)

Other Tax Legislation		1997-99
SB 5334	Insurance Premium Tax Credit	(\$5.9)
SB 5157	Flood damage	(2.8)
C 4, L 97	Auto auctions	(0.8)
SB 5286	Intangible property exemption	(0.6)
SB 5359	Aircraft parts exemption	(0.4)
Reserve for Additional Tax Reductions		(41.0)
TOTAL		(\$51.5)

Budget Driven Revenue/Other Revenue Legislation		1997-99
SSB 6073	Cigarette tax enforcement	\$9.0
Lottery - new on line games		7.1
Excess Liquor tax distribution to general fund		3.2
SB 5997	Cosmetology inspections	0.3
SB 5173*	Liquor license schematic change	0.0
TOTAL		\$19.6

Other Appropriation Legislation		1997-99
SB 5119**	Forest practices appeals board	\$0

* SB 5173 -- Liquor license schematic change is \$43,000 and rounds to zero when displayed as dollars in millions.

** SB 5119 -- Forest practices appeals board is \$8,000 and rounds to zero when displayed as dollars in millions.

REVENUE ADJUSTMENTS

MAJOR TAX REDUCTION LEGISLATION

PERMANENT PROPERTY TAX REDUCTION - \$194.6 MILLION GF-S REVENUE DECREASE

Senate Bill 5835 permanently reduces the state property tax by 4.7% beginning in 1998, reduces the 106% limit on state property tax growth to the lesser of 106% or inflation and provides a limit on sudden growth in property values for taxes collected in 1999. In addition, the 106% limit is reduced for all local districts with populations over 10,000. These districts may levy up to the 106% limit with a majority plus one vote of the governing body. In local districts with only three board members, the approval of two of three members is necessary to levy up to the 106% limit. This bill has been put to the voters for their action at the November 1997 general election.

BUSINESS AND OCCUPATION (B&O) TAX - \$193.4 MILLION GF-S REVENUE DECREASE

The B&O tax rate is reduced to 1.5% on all service activities in Senate Bill 7902. Currently the base rate for selected business services is 2.0%, financial services is 1.6% and "other activities" is 1.75%.

STATE PROPERTY TAX REDUCTION - \$26.4 MILLION GF-S REVENUE DECREASE

House Bill 1417 reduces the state property tax collected in 1997 by 4.7%. It reduces 1995-97 revenues by \$32.3 million and 1997-99 revenues by \$26.4 million. This measure has been signed by the Governor.

OTHER TAX LEGISLATION

INSURANCE PREMIUMS TAX CREDIT -- \$5.9 MILLION GF-S REVENUE DECREASE

SB 5334 provides a tax credit for insurance companies that pay assessments to guaranty associations. Insurance guaranty associations assess member insurance companies after an insolvency occurs to raise funds to protect policyholders adversely affected by the insolvency. This bill allows a credit against the insurance premiums tax for the amount of these assessments.

FLOOD DAMAGE SALES TAX EXEMPTION - \$2.8 MILLION GF-S REVENUE DECREASE

Senate Bill 5157 provides a sales tax exemption for labor, services and tangible property for residential buildings, household goods, and private automobiles lost or destroyed by inclement weather that occurred between June 30, 1995 and May 1, 1997. This measure provides \$1.75 million in tax relief in 1995-97 and an additional \$2.8 million in 1997-99.

AUTO AUCTION B&O EXEMPTION - \$825,000 GF-S REVENUE DECREASE

A B&O tax exemption for amounts received by motor vehicle manufacturers and their financing subsidiaries from the sale of motor vehicles at wholesale

auctions to dealers licensed in this or another state is provided in House Bill 1959. The measure has been signed by the Governor.

INTANGIBLE PROPERTY EXEMPTION - \$589,000 GF-S REVENUE DECREASE

Senate Bill 5286 exempts intangible personal property from property taxation. Intangible property includes items such as trademarks, trade names, brand names, patents, copyrights, trade secrets, franchise agreements, licenses and permits. The exemption is effective for valuation of property in 1998 and taxes due in 1999.

AIRCRAFT PARTS SALES TAX EXEMPTION - \$386,000 GF-S DECREASE

Senate Bill 5359 clarifies an existing sales and use tax exemption for materials used in the design and development of aircraft parts and equipment for small aircraft businesses.

RESERVED FOR OTHER TAX/REVENUE REDUCTIONS - \$41.0 MILLION GF-S REVENUE DECREASE

\$41.0 million is reserved for other tax and revenue reduction legislation to be passed this session.

BUDGET DRIVEN REVENUE AND OTHER REVENUE LEGISLATION

INCREASED CIGARETTE TAX ENFORCEMENT - \$9.0 MILLION GF-S INCREASE

Substitute Senate Bill 6073 transfers the enforcement of cigarette taxes from the Department of Revenue to the Liquor Control Board. In addition, the health services account and the violence reduction and drug education account will receive increased revenues.

NEW ON-LINE LOTTERY GAMES - \$7.1 MILLION GF-S INCREASE

The Lottery Commission will introduce a new on-line games in FY 1998. The increased lottery activity will generate an additional \$7 million in general fund revenues.

EXCESS LIQUOR TAX DISTRIBUTION TO THE GENERAL FUND - \$3.2 MILLION GF-S INCREASE

This increase reflects the net reduction in the amount provided for expenditures for the Liquor Control Board and therefore increases the amount returned to the general fund.

INSPECTION OF COSMETOLOGY SCHOOLS, SALONS AND SHOPS - \$254,000 GF-S INCREASE

The Department of Licensing will inspect schools of cosmetology and barbering at least once a year and inspect salons and shops at least once every two years. The increased inspections will result in new businesses being licensed and create new revenue.

IMPROVING THE LIQUOR LICENSE SCHEMATIC - \$43,000 GF-S DECREASE

The current structure for liquor licenses is streamlined in Senate Bill 5173. The net effect of the changes in liquor license fees will result in a decrease in general fund revenues.

OTHER APPROPRIATION LEGISLATION

FOREST PRACTICES APPEALS BOARD - \$8,000 GF-S

Senate Bill 5119 includes an \$8,000 appropriation to the Environmental Hearings Office for an increase in the per diem compensation of forest practices appeals board members.

1997 SUPPLEMENTAL BUDGET

1997 SENATE SUPPLEMENTAL BUDGET

General Fund-State (Dollars in Thousands)

ONE-TIME POLICY ENHANCEMENTS

Common School Construction Funding	\$75,000
Educational Network Funding	12,624
Disaster Recovery Funding	10,760
<u>Mirabeau Point Multi-Use Community Facility</u>	<u>1,500</u>
Total Policy Enhancements	\$99,884

MAJOR MAINTENANCE ADJUSTMENTS

Loss of Title IV-A Federal Funds in Juvenile Rehabilitation	\$14,189
General Assistance-Unemployable Benefits for Drug and Alcohol	7,750
Dependent People Dropped from SSI	
Increase in Foster Care/Adoption Forecast	6,600
Medicaid Forecast Change	5,939
Higher Payment for Medicaid/Medicare Dual Eligibles	5,560
Replace Lost Federal Payment for \$50 Pass-Through	4,399
Emergency Fire Suppression Funds	4,174
Additional ACES Costs	3,351
Corrections Population Forecast Adjustment	3,152
Mental Hospital Medicare Settlements	3,071
Medicaid Costs for Protease Inhibitors	2,418
Maintain Current State Park Operations	2,400
Higher Education Health Benefits Restoration	2,357
December 96 Winter Storm	2,331
Juvenile Rehabilitation Forecast Update	(1,613)
Public Schools Compensation Changes	(2,926)
Delay in Secured Crisis Residential Centers	(4,000)
Other Public Schools Adjustments	(7,307)
Reduction in Nursing Home Caseload/Rate	(9,197)
Mental Health Community Inpatient Hospital Savings	(9,300)
Public Schools Enrollment/Workload Changes	(15,842)
Reduce Debt Service	(18,006)
Aid to Families with Dependent Children (AFDC) Caseload Reductions	(18,350)
<u>All Other Maintenance Adjustments</u>	<u>\$18,966</u>
Total Maintenance Adjustments	\$116

TOTAL PROPOSED SENATE 1997 SUPPLEMENTAL BUDGET	\$100,000
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